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Ethical Change Management

Abstract

[Excerpt] When Wells Fargo made headlines this year for illegally opening 2 million fake accounts on behalf of unknowing customers, they exposed a corporate culture that not only ignored wrongdoing, but also actively promoted ethical misconduct. While the full extent of the corruption will yet be revealed, Wells Fargo nonetheless joins a long list of recent commercial scandals that have all but shattered public trust in corporate America.

High profile businesses are not the only ones susceptible to unethical practices. The Ethics Resource Center's 2013 National Business Ethics Survey conservatively estimates that 41% of U.S. workers observed unethical or illegal misconduct in the past year. Other estimates place that number as high as 74%. Either way, the results are eye opening. With the rate of immorality among organizations so high, one may ask the following: **How do you change an unethical culture into an ethical culture?**

By outlining key strategies and tools, this report will show HR professionals and business leaders alike how they can achieve ethical realignment for their organization.

Keywords

Human Resources, engagement, employee engagement, performance management, change management, corporate social responsibility, CSA, ethics, ethical, leadership, culture, communication, ethical culture

Comments

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Ethical Change Management

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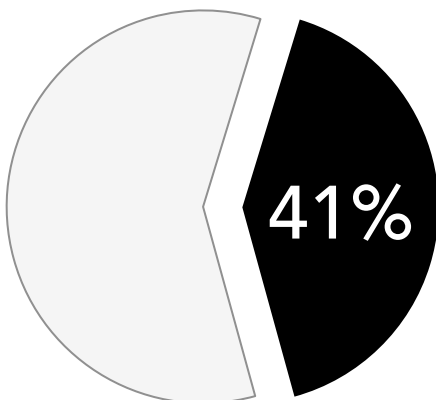
Introduction

When Wells Fargo made headlines this year for illegally opening 2 million fake accounts on behalf of unknowing customers, they exposed a corporate culture that not only ignored wrongdoing, but also actively promoted ethical misconduct. While the full extent of the corruption will yet be revealed, Wells Fargo nonetheless joins a long list of recent commercial scandals that have all but shattered public trust in corporate America.

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of U.S. workers said they witnessed unethical or illegal wrongdoing in the past year.

Source: 2013 National Business Ethics Survey, Ethics Resource Center

Understanding Change Management

Barriers to Change

Most people would probably agree that it's important for a business to stop breaking the law and start behaving ethically. But change is difficult—in fact, only 1/3 of all change efforts actually succeed. In the case of Wells Fargo, despite thousands of employees petitioning upper management to change its unethical culture, fraudulent practices still continued. If so many people wanted change, then why was change so hard?

This was because individuals and organizations naturally resist change—for a myriad of reasons including habit, inertia, financial uncertainty, and threats to the status quo. Those unwilling to change often see what they want to see through a process known as selective attention, and as a result are blind to the real problems at hand.

These issues are exacerbated in an unethical culture. Those engaging in unethical behavior personally benefit from the current system and they also fear admitting to corruption. Meanwhile, ethical employees are left with few options. Some speak up and are punished. Some voluntarily leave, and others either engage in the misconduct themselves or become too afraid to stand up to accepted norms.

How to Change

Notwithstanding the challenges, change is possible. Building on previous change management theories, John Kotter in his seminal book, *Leading Change*, outlines 8 key steps in the change process (see right).

According to Kotter, organizations that effectively execute each of these steps successfully create lasting change. However, change efforts collapse when organizations fail to enact these steps. Explained in more detail in the next section, the 8 steps provide valuable insight into changing a company's culture from unethical to ethical.

John Kotter's 8-Step Model to Organizational Change

1

• Establish a Sense of Urgency

2

• Create a Guiding Coalition

3

• Develop a Vision and Strategy

4

• Communicate the Change Vision

5

• Empower Employees for Broad-Based Action

6

• Generate Short Term Wins

7

• Consolidate Gains and Produce More Change

8

• Anchor New Approaches in the Culture

Source: Kotter, John P.. *Leading Change*. Harvard Business Press. 1996.

Best Practices

Congruent with Kotter's 8 steps to implementing change, the following are best practices for making your company ethical:

1. Establish a Sense of Urgency

This is often the result of an external catastrophe, such as a scandal. However, if no scandal shocks your organization, you can achieve this by educating stakeholders on the potentially deadly consequences of unethical practices while reminding them of the benefits of moral behavior.

Consequences of unethical behavior, including bankruptcies and jail time, are well publicized but should not be forgotten. Conversely, it's encouraging to know that ethical companies outperform competitors—annualized stock returns from *Fortune's 100 Best Companies to Work For* were nearly double the rate of returns from the S&P 500 from 1997 to 2013 (11.8% vs. 6%). Ethical companies also function more effectively; attract and retain better talent; and have better, more profitable relations with clients, stockholders, and the general public.

2. Create a Guiding Coalition

Leaders have an enormous impact on creating and sustaining a company's ethical climate. It is essential then that your top leaders model ethic conduct so that others can mimic their behavior. With support from several key players, you can begin the change process. Unethical leaders, however, can undermine the entire ethical culture and must be disciplined or terminated.



Best Practices

3. Develop a Vision and Strategy

The best visions are simple, specific, and realistically ambitious. An ethical vision and strategy will be best tailored to how your firm does business, but should entail zero-tolerance for unethical behavior.

Lynn S. Paine points out that there is a

One of the most effective ways to communicate your vision is through a training program. Training programs not only help employees understand how to make ethical decisions specific to their business unit, but they also promote awareness of ethics in general. Sometimes,

	Compliance Strategy	Integrity Strategy
Ethos	Conformity with externally imposed standards	Self-governance according to chosen standards
Objective	Prevent criminal misconduct	Enable responsible conduct
Leadership	Lawyer driven	Management driven with aid of lawyers, HR, others
Methods	Education, reduced discretion, auditing and controls, penalties	Education, leadership, accountability, organizational systems and decision processes, auditing and controls, penalties
Behavioural Assumptions	Autonomous beings guided by material self-interest	Social beings guided by material self-interest, values, ideals, peers

Source: Paine, Lynn S. "Managing For Organizational Integrity". *Harvard Business Review*. 1994.

fundamental difference between a compliance strategy and an integrity strategy. The former is essentially the minimum one must do to avoid breaking the law while the latter—an integrity strategy—is one that aspires to do everything the right way. The characteristics of both strategies are listed above (see chart).

4. Communicate the Change Vision

Companies can communicate their ethical vision many different ways. For example, one Fortune 500 company plays a recording of its ethical standards when employees are on hold.

employees aren't aware that some business problems have ethical consequences, and ethical training helps them frame these problems as ethical problems.

5. Empower Employees for Broad-Based Action

Employees won't blow the whistle unless they believe management will take them seriously. Therefore, take them seriously. Establish means by which they can be safely heard. Protect whistleblowers from retaliation and punish the ones they blew the whistle on. Show that you're serious by investing appropriately in compliance and

Best Practices

investigation functions, especially for your businesses that operate in global markets where corruption occurs more frequently.

Among large companies, those that have effective ethics programs experience a much healthier ethical culture (see chart, right). In addition to less “observed misconduct,” employees in large companies with effective ethics programs related significantly lower pressure to compromise standards, reported more misconduct they saw, and experienced much less retaliation for blowing the whistle.

6. Generate Short Term Wins

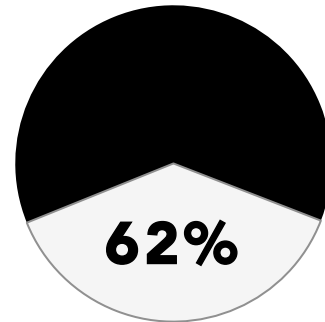
While creating an ethical culture may take time, even years, make sure to have short-term successes to keep morale high. Take the following example. One of the most significant challenges to an ethical culture is a high-performer who behaves unethically. By disciplining him/her appropriately, you can show that you take your ethical vision seriously, and people will begin to trust in you and the company. Companies that undergo scandals can fire those responsible and deny them financial benefits for leaving.

7. Consolidate Gains and Produce More Change

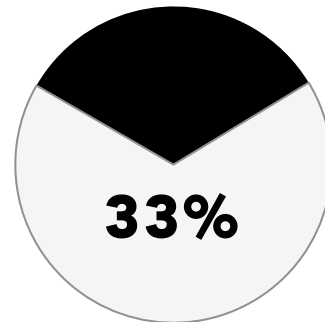
Change efforts fail when executives see initial successes and believe the change is over. Organizations should continue to revise their ethical trajectory by holding on to what works and adapting what isn't. Sustaining an ethical culture requires constant maintenance.

Observed Misconduct

Without Effective Ethics Program



With Effective Ethics Program



Source: 2013 National Business Ethics Survey, Ethics Resource Center

5. Anchor New Approaches in the Culture

Finally, anchor new approaches to ethics by embedding those changes into recruitment, socialization, and evaluation practices. Perform due diligence on potential hires' backgrounds and make ethics as important as technical qualifications for new hires. Once hired, train them on ethics and regularly update their training. Promotions and rewards should be inextricably tied to ethical practice. In doing so, ethical leaders can maintain the high ethical standards that are now in place.



Worst Practices

In addition to some best practices, here are some things to avoid. Awareness of these practices will help professionals end them before misconduct ensues.

An Overwhelming Focus on Outcomes

Having ambitious goals is good, but emphasizing the outcome at the expense of the process is a recipe for public scandal. Wells Fargo's scandal was largely due to overambitious sales goals. Also, in the 1990s, Sears Auto charged customers for needless repairs to meet aggressive sales goals. Had these two companies been concerned with the process to arrive at those ambitious goals, their reputations may not have been damaged.

Short-term orientation

Similarly, myopic attention to short-term gains often leads to unethical behaviors, as in the case of Enron. Enron used mark-to-market accounting to post seemingly enormous gains, which resulted in huge jumps in their stock price. However, those "gains" were overstated, and in the long-term there was no revenue to show for it. Ultimately, Enron filed for bankruptcy. Companies, like Enron, enter dangerous territories when quarterly earnings become more important than long-term company health.

Accepting Minor Infractions

Larger ethical issues typically stem from smaller violations. Take smaller ones seriously, and the number of serious ones will likely be smaller.

HealthSouth: A Case Study

In 2003 an investigation of HealthSouth began, which later found 16 executives guilty of \$2.7 billion fraud. The fraud largely stemmed from a culture of aggressive expansion and emphasis on beating Wall Street estimates. Soon after the suit, the company nearly went bankrupt. However, after extensive regulatory oversight, HealthSouth returned to financial and ethical stability. To do so, meant many significant changes to their corporate culture. Here are three reasons why they managed to succeed.

New Leadership

This was forced, in a way, by the conviction of many of their top executives. Nevertheless, they created a new position—Chief Compliance Officer—that reports directly to the new CEO. This new leadership, committed to ethical rehabilitation became the guiding coalition for change.

Modified Vision and Strategy

While the previous culture valued financial results above all else, the new vision is primarily to provide quality care to patients. As part of their strategy to achieve this, they restructured the company so that managers could focus more attention on patients instead of profits.

Removed Symbols

In an effort to communicate the new vision, the new leadership let go of the former CEO's bodyguards, removed the weapons arsenal from the top floor, and granted everyone access to the top floor (blocked under the previous CEO). Changing these cultural symbols signified a shift to greater transparency.



Conclusion

Corporate scandals have become almost daily occurrences in recent years. Wells Fargo is just one of the many companies caught engaging in unethical business practices. More are sure to follow. With so many companies abandoning their moral principles, now is an opportune time to review the ethical state of your own company.

Whether mired in lawsuits or performing business as usual, your organization can and must improve its ethical practices for the sake of its future survival.

In the case of more serious offenders, it may appear impossible to reverse years of wrongdoing, but HealthSouth and many other companies have shown that it is possible. And with ethics, change is not a choice, but an obligation to self and to society. ■



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